

March 3, 2004

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing on H.R. 3574, the Stock Option Accounting Reform Act

Thank you, Mr. Chairman, for holding this important and timely hearing. The issue of how to account for employee stock options in a company's financial statements is a very significant one, given the many high profile cases of accounting fraud in large publicly traded companies.

As a Member of both the House Committee on Energy and Commerce and the House Financial Services Committee, since 1994 I have been monitoring the Financial Accounting Standards Board (FASB) rule-making process on the accounting of stock options and was supportive of their previous final rule addressing stock options and allowing them to be recorded as an expense on their annual profit and loss statements.

Unfortunately, Mr. Chairman, I have to say I oppose HR 3574, the Stock Option Accounting Reform Act, which we are reviewing this morning. I feel Congress and this Committee should stand by our statement in the Sarbanes-Oxley Act of 2002 and the recent Securities and Exchange Commission (SEC) Policy Statement reaffirming FASB as the nation's accounting standard setter and we should allow them to their job and retain the independence mandated in these matters by Congress itself.

This week, I am circulating a letter to all my colleagues that I received from the Ohio Public Employees Retirement System (OPERS), a 56 billion dollar fund and tenth largest state pension fund in the United States, expressing their support for FASB's actions and opposition to this bill. As Laurie Fiori Hacking, Executive Director of OPERS, states in her letter "FASB has considerable financial expertise and is best suited to consider complex accounting issues. It also has a measured process in place for soliciting public feedback on proposed accounting standards."

U.S. Financial markets remain the envy of the world due to the quality, timeliness and credibility of the financial information and disclosures provided by companies. The

result is better allocation of resources and lower overall cost of capital. We here in Congress must ensure that this remains the case by allowing our standard-setter to operate independent of public and private special interests.

I encourage my colleagues to support the position that the role of FASB is to pursue transparency and accuracy in accounting standards, not to choose among competing public policies.

We should not be setting accounting standards on a political basis. Also, the failure to expense option provides false and misleading statements to shareholders, because it does not accurately report the true costs to the company and shareholders, which explains the broad support for stock option expensing by financial experts such as SEC Chairman William Donaldson, Federal Reserve Chairman Alan Greenspan, former Fed Chairman Paul Volcker and Warren Buffet.

Again, thank you Mr. Chairman for calling this important hearing and I look forward to a thorough debate.